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DAN E. ARNETT
CHIEF OF STAFF

October 11, 2007

VIA EFILING AND HAND-DELIVERY

The Honorable Charles L.A. Terreni
Chief Clerk/Administrator
Public Service Commission of South Carolina
101 Executive Center Drive
Columbia, South Carolina 29210

RE: Application of Southland Utilities, Inc. for adjustment of rates and charges for the provision of water service; Docket No. 2007-244-W

Dear Mr. Terreni:

Enclosed for filing please find the original and one (1) copy of the **Explanatory Brief and Joint Motion for Settlement Hearing and Adoption of Settlement Agreement** in the above-referenced matter. Attached thereto you will find the Parties' Settlement Agreement of today's date and supporting documentation submitted in accordance with the Commission's June 13, 2006 Settlement Policies and Procedures.

As you are aware, Southland Utilities, Inc. and the Office of Regulatory Staff indicated that it would file a settlement agreement in this matter on October 10, 2007. Due to unforeseen time constraints, the parties were unable to execute the agreement until October 11, 2007. Therefore, the parties would respectfully request that the Commission excuse the date previously offered by the parties.

I would appreciate your acknowledging receipt of these documents by date-stamping the extra copy that is enclosed and returning it to me via our courier delivering the same. By copy of this letter, I am providing a copy of same to counsel for Southland. If you have any questions or if you need any additional information, please do not hesitate to contact us.

Sincerely,

Nanette S. Edwards

Enclosures

cc: Benjamin P. Mustian

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2007-244-W

IN RE:)	
)	
Application of Southland Utilities, Inc.)	EXPLANATORY BRIEF AND JOINT
for adjustment of rates and charges)	MOTION FOR SETTLEMENT
for the provision of water service.)	HEARING AND ADOPTION OF
)	SETTLEMENT AGREEMENT
<hr/>		

The South Carolina Office of Regulatory Staff (“ORS”) and Southland Utilities, Inc. (“Southland” or “the Company”) (collectively “the Parties”) pursuant to 26 S.C. Code Ann. Regs. 103-829, the Settlement Policies and Procedures of the Public Service Commission of South Carolina (“the Commission”), revised June 13, 2006, and other applicable statutes, rules and regulations, hereby file this Explanatory Brief and Joint Motion to establish a settlement hearing in the above-captioned proceeding and for approval of the settlement agreement filed herewith. In support of this Joint Motion, the Parties state as follows:

1. On or about June 25, 2007, Southland filed an Application seeking an adjustment of its rates and charges for the provision of its water service. By its application, the Company sought an increase in annual water revenues of \$96,311. Pursuant to S.C. Code Ann. Section 58-4-10(B), ORS is a party of record in this proceeding. Further, ORS and Southland are the only parties of record in the above-captioned docket.

2. Following ORS’s financial and business compliance audit of Southland and extensive discussions concerning the issues in the above-captioned proceeding, Southland has determined that its interests, and ORS has determined that the public interest, would best be

served by stipulating to a comprehensive settlement of all issues pending in the above-captioned proceeding. The agreement detailing the terms and conditions of the settlement is provided herewith as Attachment "A". The basis and rationale for the settlement is set forth in the proposed settlement testimonies of Lena Georgiev, Bruce T. Haas, Paul B. Townes, M. Elizabeth Ford, and Douglas H. Carlisle, Jr., copies of which are attached as Exhibits "A", "B" and "C" to Attachment "A".

3. Currently, the hearing in this matter is scheduled for October 18, 2007. In order to present the merits of the settlement agreement to the Commission, the Parties jointly move that the Commission commence a settlement hearing on October 18, 2007.

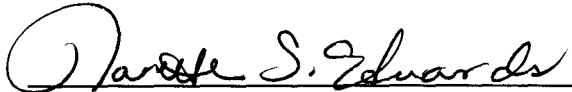
4. The Parties submit that the settlement agreement produces rates that are just and reasonable and move its approval as being in the public interest.

WHEREFORE, having fully set forth their Explanatory Brief and Joint Motion, the Parties request that the Commission 1) permit the Parties to present the merits of the settlement agreement on October 18, 2007, and 2) issue an order approving the Parties' settlement agreement as just, fair and reasonable.

[SIGNATURES ON FOLLOWING PAGE}

WE SO MOVE:

Representing the Office of Regulatory Staff



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WE SO MOVE:

Representing Southland Utilities, Inc.



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Benjamin P. Mustian, Esquire

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ATTACHMENT

A

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2007-244-W
October 11, 2007

Application of Southland Utilities, Incorporated)	SETTLEMENT AGREEMENT
For Adjustment of Rates and Charges for the)	
<u>Provision of Water Services)</u>	

This Settlement Agreement is made by and between the South Carolina Office of Regulatory Staff (“ORS”) and Southland Utilities, Incorporated (“Southland” or “the Company”) (together referred to as the “Parties” or sometimes individually as “Party”).

WHEREAS, the Company has prepared and filed an Application seeking an adjustment of its rates and charges and modifications to certain terms and conditions set out in its rate schedule for the provision of its water service;

WHEREAS, the above-captioned proceeding has been established by the South Carolina Public Service Commission (“Commission”) pursuant to the procedure established in S.C. Code Ann. § 58-5-240 (Supp. 2006);

WHEREAS, ORS has audited the books and records of the Company relative to the matters raised in the Application and, in connection therewith, has requested of and received from the Company additional documentation;

WHEREAS, the Parties have varying legal positions regarding the issues in this case;

WHEREAS, the Parties have engaged in discussions to determine if a settlement of the issues would be in their best interests and in the case of ORS, in the public interest;

WHEREAS, following those discussions the Company has determined that its interests and ORS has determined that the public interest would be best served by stipulating to a comprehensive settlement of all issues pending in the above-captioned case under the terms and conditions set forth herein;

NOW, THEREFORE, the Parties hereby stipulate and agree to the following terms, which, if adopted by the Commission in its Order on the merits of this proceeding, will result in rates and terms and conditions of water service which are adequate, just, reasonable, nondiscriminatory, and supported by the evidence of record of this proceeding, and which will allow the Company the opportunity to obtain a reasonable return on equity.

1. The Parties agree that no documentary evidence will be offered in the proceeding by the Parties other than: (1) the Application filed by the Company, (2) the exhibits to the testimony referenced in paragraphs 2 and 3 below, and (3) this Settlement Agreement with Exhibits "A"- "C" attached hereto. ORS reserves its right to present its witnesses in support of this Settlement Agreement.

2. The Parties stipulate and agree that the accounting exhibits prepared by ORS and attached to the Settlement testimony of Paul B. Townes (filed as Exhibit "A") fairly and reasonably set forth the Company's operating expenses, pro forma adjustments, depreciation rates, revenue requirement, and return on equity.

3. The Parties stipulate and agree to include in the hearing record of this case the pre-filed direct testimonies of Lena Georgiev and Bruce T. Haas (filed as Exhibit "B"), and the Settlement testimony of M. Elizabeth Ford and Douglas Carlisle (filed as Exhibit "C"), including

all exhibits attached to said pre-filed testimonies, without objection, change, amendment or cross-examination.

4. The Parties stipulate and agree that the rate schedule entitled Exhibit “MEF 3” to Settlement testimony of M. Elizabeth Ford, including the rates and charges and terms and conditions of service, are fair, just, and reasonable. The Parties further stipulate and agree that the rates contained in said rate schedule are reasonably designed to allow the Company to provide service to its water customers at rates and terms and conditions of service that are fair, just and reasonable and provides the opportunity to recover the revenue required to earn a reasonable return on equity.

5. ORS is charged by law with the duty to represent the public interest of South Carolina pursuant to S.C. Code § 58-4-10(B) (added by Act 175). S.C. Code § 58-4-10(B)(1) through (3) reads in part as follows:

... ‘public interest’ means a balancing of the following:

- (1) concerns of the using and consuming public with respect to public utility services, regardless of the class of customer;
- (2) economic development and job attraction and retention in South Carolina; and
- (3) preservation of the financial integrity of the State’s public utilities and continued investment in and maintenance of utility facilities so as to provide reliable and high quality utility services.

ORS believes the agreement reached between the Parties serves the public interest as defined above. The terms of this Settlement Agreement balance the concerns of the using public while preserving the financial integrity of the Company. ORS also believes the Settlement Agreement promotes economic development within the State of South Carolina.

6. In its Application, the Company has requested an increase in total operating revenues of \$96,311. As a compromise to their respective positions, the Parties stipulate and

agree to an increase in total operating revenues of \$59,857. This increase is supported by the adjustments reflected in Exhibit "A." The resulting retail rates agreed upon are as follows: \$15.85 Base Facilities Charge per month and \$5.87 commodity charge per 1,000 gallons.

7. The Company and ORS recognize the value of resolving this proceeding by settlement rather than by litigation and, therefore stipulate and agree for purposes of settlement in this case that a return on equity of 9.30% is just and reasonable under the specific circumstances of this case in the context of a comprehensive settlement.

8. Additionally, Southland agrees to provide customers a 30-day advance written notice of the recurring annual date when the customer must have their backflow prevention device tested by a licensed, certified tester. Should the customer fail to provide a report of the test by the licensed, certified tester within that 30-day time period, the Company will have the backflow device tested by an independent, licensed and certified tester and will bill the costs of that test to the customer on the next bill without markup. Furthermore, Southland agrees to include a reference to the Department of Health and Environmental Control ("DHEC") website and Southland's phone number on the notice to respond to customer inquiries.

9. The Parties further stipulate and agree that this Settlement Agreement conclusively demonstrate the following: (i) the proposed accounting and pro forma adjustments and depreciation rates reflected in Settlement Exhibit A are fair and reasonable and should be adopted by the Commission for ratemaking and reporting purposes; (ii) the rate of return on equity of 9.3 percent and an annual increase in total operating revenues of \$59,857.00, is fair, just, and reasonable when considered as a part of this stipulation and settlement agreement in its entirety; (iii) Southland's services are adequate and being provided in accordance with the requirements set out in the Commission's rules and regulations pertaining to the provision of

water services, and (iv) Southland's rates as proposed in this Settlement Agreement are fairly designed to equitably and reasonably recover the revenue requirement and are just and reasonable and should be adopted by the Commission for service rendered by the Company on and after January 1, 2008.

10. The Company agrees to notify its customers of the implementation of these new rates.

11. The Company agrees to maintain its books and records in accordance with the National Association of Regulatory Utility Commissioners (NARUC) Uniform Systems of Accounts and maintain continuing property records.

12. The Parties further agree and stipulate that the rate schedule attached hereto as Exhibit "C", including the rates and charges and the terms and conditions set forth therein, are just and reasonable, reasonably designed, and should be approved and adopted by the Commission.

13. The Parties agree to advocate that the Commission accept and approve this Settlement Agreement in its entirety as a fair, reasonable and full resolution of the above-captioned proceeding and to take no action inconsistent with its adoption by the Commission. The Parties further agree to cooperate in good faith with one another in recommending to the Commission that this Settlement Agreement be accepted and approved by the Commission. The Parties agree to use reasonable efforts to defend and support any Commission order issued approving this Settlement Agreement and the terms and conditions contained herein.

14. The Parties agree not to introduce or use this Settlement Agreement to constrain, inhibit, impair, or prejudice the other party in other proceedings. If the Commission should

decline to approve the agreement in its entirety, then any Party desiring to do so may withdraw from the Settlement Agreement without penalty or obligation.

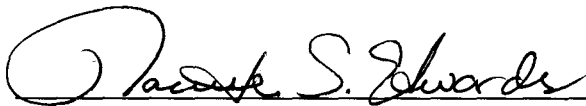
15. This Settlement Agreement shall be interpreted according to South Carolina law.

16. The above terms and conditions fully represent the agreement of the Parties hereto. Therefore, each Party acknowledges its consent and agreement to this Settlement Agreement by affixing its signature or by authorizing its counsel to affix his or her signature to this document where indicated below. Counsel's signature represents his or her representation that his or her client has authorized the execution of the agreement. Facsimile signatures and e-mail signatures shall be as effective as original signatures to bind any party. This document may be signed in counterparts, with the various signature pages combined with the body of the document constituting an original and provable copy of this Settlement Agreement. The Parties agree that in the event any Party should fail to indicate its consent to this Settlement Agreement and the terms contained herein, then this Settlement Agreement shall be null and void and will not be binding on any Party.

SIGNATURE PAGES FOLLOW

WE AGREE:

Representing the South Carolina Office of Regulatory Staff

A handwritten signature in cursive script, reading "Nanette S. Edwards", written in black ink.

Nanette S. Edwards, Esquire

Shealy Boland Reibold, Esquire

South Carolina Office of Regulatory Staff

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WE AGREE:

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EXHIBIT A

**THE OFFICE OF REGULATORY STAFF
SETTLEMENT TESTIMONY AND
EXHIBITS
OF
PAUL B. TOWNES**



**DOCKET NO. 2007-244-W
APPLICATION OF
SOUTHLAND UTILITIES, INC.
FOR ADJUSTMENT OF RATES AND CHARGES**

TESTIMONY OF PAUL B. TOWNES

FOR

THE OFFICE OF REGULATORY STAFF

DOCKET NO. 2007-244-W

IN RE: SOUTHLAND UTILITIES, INC.

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.

A. My name is Paul B. Townes. My business address is 1441 Main Street, Suite 300, Columbia, South Carolina, 29201. I am employed by the Office of Regulatory Staff (“ORS”) as an Auditor.

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND YOUR BUSINESS EXPERIENCE.

A. I received my Master of Accountancy from the University of South Carolina in 1979. I have over twenty-five years of accounting experience including public accounting and private industry. I have been employed with the ORS since January 2006. I am a licensed Certified Public Accountant in the State of South Carolina.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY INVOLVING SOUTHLAND UTILITIES, INC.?

A. The purpose of my testimony is to set forth my findings and recommendations resulting from ORS’s examination of the application of Southland Utilities, Inc. (“Southland”) in this docket.

1 **Q. PLEASE IDENTIFY THE EXHIBITS ATTACHED TO YOUR PREFILED**
2 **TESTIMONY.**

3 A. I have attached six exhibits related to Southland's application for a rate increase filed
4 in Docket No. 2007-244-W. Exhibit PBT-1 details the Operating Experience, Rate
5 Base and Rate of Return. Exhibit PBT-2 is an Explanation of Accounting and Pro
6 Forma Adjustments. Exhibit PBT-3 shows Depreciation and Amortization Expense
7 Adjustment. Exhibit PBT-4 shows the Computation of Income Tax. Exhibit PBT-5
8 shows Cash Working Capital Allowance. Exhibit PBT-6 shows Return on Common
9 Equity.

10 **Q. PLEASE EXPLAIN THE CONTENTS OF THE EXHIBITS.**

11 A. Exhibit PBT-1 contains five columns. The first column entitled "Per Company
12 Books" reflects the balances in the Company's books and records as of December 31,
13 2006. The second column entitled "Accounting & Pro Forma Adjustments" shows
14 settlement accounting and pro forma adjustments designed to normalize Southland's
15 per book operations. The third column entitled "As Adjusted" shows the operations
16 after the accounting and pro forma adjustments. Column 4 is entitled "Effect of
17 Proposed Increase" shows the adjustments for the settlement rate increase and the
18 adjustments associated with the additional revenues. The final column, Column 5,
19 entitled "After Proposed Increase," shows the computation of the normalized test
20 year after accounting and pro forma adjustments and the settlement rate increase and
21 associated adjustments.

22 Exhibit PBT-2 details and compares the changes summarized in Column 2 of Exhibit
23 PBT-1 that have been agreed to by ORS and Southland. An explanation of the
24 change is listed. The changes are summarized by lines on Exhibit PBT-1 and are

1 assigned reference letter both at the summary level on Exhibit PBT-2 and at the line
2 level on Exhibit PBT-1. Both settlement adjustments and per application adjustments
3 are presented for purposes of comparison. Exhibit PBT-3 presents the calculation of
4 the depreciation expense adjustment. Exhibit PBT-4 presents the calculation of the
5 income tax adjustment. Exhibit PBT-5 presents the calculation of working capital.
6 Exhibit PBT-6 details the return on common equity.

7 **Q. PLEASE EXPLAIN THE ADJUSTMENTS IN EXHIBIT PBT-2.**

8 A. Adjustment 1: ORS and Southland agree to adjust operating revenues to reflect
9 current customers at current rates.

10 Adjustment 2: ORS and Southland agree to annualize operators' salaries as of
11 12/31/06 with a 4.0% increase, excluding bonuses.

12 Adjustment 3: ORS and Southland agree to eliminate the 2.741% Bureau of Labor
13 Statistic's Consumer Price Index ("CPI") increase in Purchased Power expense.

14 Adjustment 4: ORS and Southland agree to eliminate the CPI increase in
15 Maintenance and Repair expense.

16 Adjustment 5: ORS and Southland agree to eliminate the CPI increase in
17 Maintenance Testing expense.

18 Adjustment 6: ORS and Southland agree to eliminate the CPI increase in Meter
19 Reading expense.

20 Adjustment 7: ORS and Southland agree to eliminate the CPI increase in
21 Transportation expense.

22 Adjustment 8: ORS and Southland propose to increase Operating Expenses Charged
23 to Plant to reflect an increase in salaries, taxes, and benefits for operators.

1 Adjustment 9: ORS and Southland agree to eliminate the CPI increase in Outside
2 Services expense.

3 Adjustment 10: ORS and Southland agree to annualize office salaries as of 12/31/06
4 with a 4.0% increase, excluding bonuses.

5 Adjustment 11: ORS and Southland agree to eliminate the CPI increase in Outside
6 Services expense. ORS and Southland also agree to remove \$2,172 of excess postage
7 expense.

8 Adjustment 12: ORS and Southland stipulate to rate case expenses in the amount of
9 \$50,000, and to amortize these expenses over a three year period.

10 Adjustment 13: ORS and Southland propose to annualize Pension and Other Benefits
11 expense associated with the wage increase.

12 Adjustment 14: ORS and Southland agree to eliminate the CPI increase in Insurance
13 expense.

14 Adjustment 15: ORS and Southland agree to eliminate the CPI increase in Office
15 Utilities expense.

16 Adjustment 16: ORS and Southland agree to decrease Miscellaneous expense to
17 remove fines and penalties.

18 Adjustment 17: ORS and Southland agree to annualize Depreciation expense using
19 adjusted plant in service as of June 2007. See Audit Exhibit PBT-3 for the details of
20 the adjustment.

21 Adjustment 18: ORS and Southland agree to adjust Taxes Other Than Income to
22 reflect actual 2006 property tax expenses and to remove the impact of accrual
23 adjustments. Additionally Gross Receipts Tax has been calculated at the current rate
24 and Payroll Taxes reflect the updated salary amounts.

1 Adjustment 19: ORS and Southland agree to compute income taxes after accounting
2 and pro forma adjustments using a state rate of 5% and a federal rate of 35%. See
3 Audit Exhibit PBT-4 for details.

4 Adjustment 20: ORS and Southland agree to close out Interest During Construction
5 to the Plant Accounts.

6 Adjustment 21: ORS and Southland agree to restate Interest on Debt using the
7 settlement pro forma adjustments.

8 Adjustment 22: ORS and Southland agree to include known and measurable plant
9 additions and capitalized time after the test year to June 2007.

10 Adjustment 23: ORS and Southland agree to include plant for work orders completed
11 as of June 2007.

12 Adjustment 24: ORS and Southland agree to adjust for plant retirements associated
13 with the completed work orders as of June 2007. Adjustments to Accumulated
14 Depreciation are reflected in Adjustment No. 35.

15 Adjustment 25: ORS and Southland agree to adjust accumulated depreciation for the
16 additional plant and capitalized time.

17 Adjustment 26: ORS and Southland agree to adjust accumulated depreciation for the
18 retired plant.

19 Adjustment 27: ORS and Southland agree to adjust Cash Working Capital based on
20 pro forma expenses.

21 Adjustment 28: ORS and Southland agree to an increase in service revenues.

22 Adjustment 29: ORS and Southland agree to adjust Uncollectible Accounts expense
23 for the effect of the proposed revenue increase.

1 Adjustment 30: ORS and Southland agree to adjust utility/commission tax and gross
2 receipts taxes for the effect of the proposed revenue increase.

3 Adjustment 31: ORS and Southland agree to adjust income taxes for the effect of the
4 proposed revenue increase using a state tax rate of 5% and a federal tax rate of 35%.

5 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

6 **A.** Yes, it does.

Southland Utilities, Inc.
Docket No. 2007-244-W
Operating Experience, Rate Base and Rate of Return
For the Test Year Ended December 31, 2006

<u>Description</u>	(1) Per Company Books \$	(2) Accounting & Pro Forma Adjustments Per Settlement \$	(3) As Adjusted Per Settlement \$	(4) Effect of Proposed Increase Per Settlement \$	(5) After Proposed Increase Per Settlement \$
<u>Operating Revenues</u>					
Service Revenue - Water	46,158	(144) (A)	46,014	60,431 (I)	106,445
Miscellaneous Revenues	1,034	0	1,034	0	1,034
Uncollectible Accounts	(437)	0	(437)	(574) (M)	(1,011)
<u>Total Operating Revenues</u>	<u>46,755</u>	<u>(144)</u>	<u>46,611</u>	<u>59,857</u>	<u>106,468</u>
<u>Operating Expenses</u>					
Maintenance Expenses	23,540	13 (B)	23,553	0	23,553
General Expenses	19,733	14,576 (C)	34,309	0	34,309
Depreciation and Amortization Expenses	4,093	3,916 (D)	8,009	0	8,009
Taxes Other Than Income	1,730	6,394 (E)	8,124	689 (N)	8,813
Income Taxes	(4,519)	(10,761) (F)	(15,280)	22,631 (O)	7,351
<u>Total Operating Expenses</u>	<u>44,577</u>	<u>14,138</u>	<u>58,715</u>	<u>23,320</u>	<u>82,035</u>
<u>Total Operating Income</u>	<u>2,178</u>	<u>(14,282)</u>	<u>(12,104)</u>	<u>36,537</u>	<u>24,433</u>
Interest During Construction	(2,299)	2,299 (G)	0	0	0
Interest on Debt	10,045	2,520 (H)	12,565	0	12,565
<u>Net Income for Return</u>	<u>(5,568)</u>	<u>(19,101)</u>	<u>(24,669)</u>	<u>36,537</u>	<u>11,868</u>
<u>Original Cost Rate Base</u>					
Gross Plant in Service	333,905	128,637 (I)	462,542	0	462,542
Less Accumulated Depreciation	(38,373)	33,059 (J)	(5,314)	0	(5,314)
Net Plant in Service	295,532	161,696	457,228	0	457,228
Cash Working Capital	5,625	2,623 (K)	8,248	0	8,248
Net Contributions in Aid of Construction	(98,385)	0	(98,385)	0	(98,385)
Accumulated Deferred Income Taxes	(44,494)	0	(44,494)	0	(44,494)
Customer Deposits	(4,026)	0	(4,026)	0	(4,026)
<u>Total Rate Base</u>	<u>154,252</u>	<u>164,319</u>	<u>318,571</u>	<u>0</u>	<u>318,571</u>
<u>Return on Rate Base</u>	<u>1.41%</u>		<u>-7.74%</u>		<u>7.67%</u>

Southland Utilities, Inc.
Docket No. 2007-244-W
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2006

<u>Description</u>	<u>Settlement</u> \$	<u>Application</u> \$
<u>(A) Total Operating Revenues - As Adjusted</u>		
1. ORS and Southland agree to adjust operating revenues to reflect current customers at current rates.	(144)	(144)
<u>(B) Operating and Maintenance Expenses</u>		
2. ORS and Southland agree to annualize operators' salaries as of 12/31/06 with a 4.0% increase, excluding bonuses. ORS found this increase to be supported by actual as of 07/01/07.	347	347
3. ORS and Southland agree to eliminate the 2.741% Bureau of Labor Statistic's Consumer Price Index ("CPI") increase in Purchased Power expense.	0	171
4. ORS and Southland agree to eliminate the CPI increase in Maintenance and Repair expense.	0	195
5. ORS and Southland agree to eliminate the CPI increase in Maintenance Testing expense.	0	17
6. ORS and Southland agree to eliminate the CPI increase in Meter Reading expense.	0	15
7. ORS and Southland agree to eliminate the CPI increase in Transportation expense.	0	17
8. ORS and Southland propose to increase Operating Expenses Charged to Plant to reflect an increase in salaries, taxes, and benefits for operators.	(334)	(334)
9. ORS and Southland agree to eliminate the CPI increase in Outside Services expense.	0	63
<u>Total Operating and Maintenance Expenses - Per ORS</u>	<u>13</u>	<u>491</u>
<u>(C) General and Administrative Expenses</u>		
10. ORS and Southland agree to annualize office salaries as of 12/31/06 with a 4.0% increase, excluding bonuses. ORS found this increase to be supported by actual as of 07/01/07.	288	288
11. ORS and Southland agree to eliminate the CPI increase in Outside Services expense. ORS and Southland agree to remove a \$2,172 of excess postage expense.	(2,172)	(1,959)
12. ORS and Southland stipulate to rate case expenses in the amount of \$50,000, and to amortize these expenses over a three year period.	16,194	47,845
13. ORS and Southland propose to annualize Pension and Other Benefits expense associated with the wage increase.	420	420
14. ORS and Southland agree to eliminate the CPI increase in Insurance expense.	0	44
15. ORS and Southland agree to eliminate the CPI increase in Office Utilities expense.	0	18
16. ORS and Southland agree to decrease Miscellaneous expense to remove fines and penalties.	(154)	(154)
<u>Total General and Administrative Expenses-Per ORS</u>	<u>14,576</u>	<u>46,502</u>

Southland Utilities, Inc.
Docket No. 2007-244-W
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2006

<u>Description</u>	<u>Settlement</u> \$	<u>Application</u> \$
<u>(D) Depreciation and Amortization Expenses</u>		
17. ORS and Southland agree to annualize Depreciation expense using adjusted plant in service as of June 2007. See Audit Exhibit PBT-3 for the details of the adjustment.	<u>3,916</u>	<u>3,802</u>
<u>(E) Taxes Other Than Income</u>		
18. ORS and Southland agree to adjust Taxes Other Than Income to reflect actual 2006 property tax expenses and to remove the impact of accrual adjustments. Additionally Gross Receipts Tax has been calculated at the current rate and Payroll Taxes reflect the updated salary amounts.	<u>6,394</u>	<u>6,005</u>
<u>(F) Income Taxes - As Adjusted</u>		
19. ORS and Southland agree to compute income taxes after accounting and pro forma adjustments using a state rate of 5% and a federal rate of 35%. See Audit Exhibit PBT-4 for details.	<u>(10,761)</u>	<u>(22,909)</u>
<u>(G) Interest During Construction</u>		
20. ORS and Southland agree to close out Interest During Construction to the Plant Accounts.	<u>2,299</u>	<u>2,299</u>
<u>(H) Interest on Debt</u>		
21. ORS and Southland agree to restate Interest on Debt using the settlement pro forma adjustments.	<u>2,520</u>	<u>2,377</u>
<u>(I) Gross Plant In Service</u>		
22. ORS and Southland agree to include known and measurable plant additions and capitalized time after the test year to June 2007.	142,084	137,191
23. ORS and Southland agree to include plant for work orders completed as of June 2007.	22,074	18,873
24. ORS and Southland agree to adjust for plant retirements associated with the completed work orders as of June 2007. The adjustment associated with Accumulated Depreciation is reflected in Adjustment No. 35.	<u>(35,521)</u>	<u>(35,000)</u>
Total Gross Plant In Service	<u>128,637</u>	<u>121,064</u>
<u>(J) Accumulated Depreciation</u>		
25. ORS and Southland agree to adjust accumulated depreciation for the additional plant and capitalized time.	2,462	2,112
26. ORS and Southland agree to adjust accumulated depreciation for the retired plant.	<u>(35,521)</u>	<u>(35,000)</u>
Total Accumulated Depreciation	<u>(33,059)</u>	<u>(32,888)</u>

Southland Utilities, Inc.
Docket No. 2007-244-W
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2006

<u>Description</u>	<u>Settlement</u> \$	<u>Application</u> \$
<u>(K) Cash Working Capital</u>		
27. ORS and Southland agree to adjust Cash Working Capital based on pro forma expenses.	<u>2,623</u>	<u>(12,059)</u>
<u>(L) Service Revenues - Proposed Increase</u>		
28. ORS and Southland agree to an increase in service revenues per the settlement.	<u>60,431</u>	<u>97,232</u>
<u>(M) Uncollectible Accounts - Proposed Increase</u>		
29. ORS and Southland agree to adjust Uncollectible Accounts expense for the effect of the proposed revenue increase.	<u>(574)</u>	<u>(921)</u>
<u>(N) Taxes Other Than Income - Proposed Increase</u>		
30. ORS and Southland agree to adjust utility/commission tax and gross receipts taxes for the effect of the proposed revenue increase.	<u>689</u>	<u>1,108</u>
<u>(O) Income Taxes - Proposed Increase</u>		
31. ORS and Southland agree to adjust income taxes for the effect of the proposed revenue increase using a state tax rate of 5% and a federal tax rate of 35%.	<u>22,631</u>	<u>36,415</u>

Southland Utilities, Inc.
Docket No. 2007-244-W
Depreciation and Amortization Expense Adjustment
Test Year Ended December 31, 2006

<u>Gross Plant @ December 31, 2006</u>	\$ 333,905
ADD:	
Pro Forma Projects, Capitalized Time, and General Ledger Additions	128,637
LESS:	
Organization Expense	1,832
Land	28,495
Vehicles	14,770
Depreciable Utility Plant	417,445
Utility Plant Depreciation @ 1.5% (66.67 years)	6,262
Vehicles	14,770
Vehicle Depreciation @ 25% (4 Years)	3,693
Total Depreciation	9,955
Less: Per Books Depreciation	6,038
Settlement Adjustment	3,917

Southland Utilities, Inc.
Docket No. 2007-244-W
Computation of Income Taxes
For the Test Year Ended December 31, 2006

	<u>As Adjusted</u>
	\$
Operating Revenue As Adjusted	46,611
Less: Operating Expenses As Adjusted	<u>(73,995)</u>
Net Operating Loss Before Taxes	(27,384)
Less: Annualized Interest Expense	<u>12,565</u>
Taxable Income - State	(39,949)
State Income Taxes @ 5%	<u>5.00%</u>
State Income Taxes	<u>(1,997)</u>
Taxable Income - Federal	(37,952)
Federal Tax Rate @ 35%	<u>35.00%</u>
Total Federal Income Taxes	<u>(13,283)</u>
Total Federal and State Income Taxes	(15,280)
Less: Income Taxes Per Book	<u>(4,519)</u>
Adjustment	<u><u>(10,761)</u></u>
	 <u>After Proposed Increase</u>
Operating Revenue After Proposed Increase	106,468
Operating Expenses After Proposed Increase	<u>74,684</u>
Net Operating Income Before Taxes	31,784
Less: Annualized Interest Expense	<u>12,565</u>
Taxable Income - State	19,219
State Income Taxes @ 5%	<u>961</u>
Taxable Income - Federal	18,258
Federal Income Taxes - @ 35%	<u>6,390</u>
Total State and Federal Income Taxes	7,351
Less: Income Taxes As Adjusted	<u>(15,280)</u>
Adjustment	<u><u>22,631</u></u>

Southland Utilities, Inc.
Docket No. 2007-244-W
Cash Working Capital Allowance
For the Test Year Ended December 31, 2006

	\$
Operating and Maintenance - As Adjusted	23,553
General and Administrative - As Adjusted	34,309
Taxes Other Than Income	<u>8,124</u>
Total Expenses for Computation	65,986
45-Day Allowance (1/8 Rate)	<u>12.50%</u>
Computed Cash Working Capital - As Adjusted	8,248
Cash Working Capital - Per Books	<u>5,625</u>
Cash Working Capital Adjustment Per Settlement	<u><u>2,623</u></u>

Southland Utilities, Inc.
Docket No. 2007-244-W
Return On Common Equity
Capital Structure at December 31, 2006

Description	Capital Structure	Ratio	-----As Adjusted-----			-----After Proposed Increase-----				
			Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return
	\$	%	\$	%	%	\$	\$	%	%	\$
Long-Term Debt	180,000,000	59.94%	190,949	6.58%	3.94%	12,564	190,949	6.58%	3.94%	12,564
Common Equity	120,304,320	40.06%	127,622	-29.17%	-11.69%	(37,233)	127,622	9.30%	3.73%	11,869
Totals	300,304,320	100.00%	318,571		-7.75%	(24,669)	318,571		7.67%	24,433

Used Capital Structure of Utilities, Inc. and Subsidiaries @ 12-31-2006

EXHIBIT B

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2007-244-W

FILED
2007 SEP 14 PM 4:13
SC PUBLIC SERVICE COMMISSION
COLUMBIA, SOUTH CAROLINA

IN RE:)
)
Application of Southland Utilities, Inc.)
for adjustment of rates and charges)
for the provision of water service.)
_____)

DIRECT TESTIMONY
OF
LENA GEORGIEV

1 **Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS ADDRESS**
2 **FOR THE RECORD.**

3 **A.**My name is Lena Georgiev. I am employed as a Senior Regulatory Accountant at
4 Utilities, Inc., 2335 Sanders Road, Northbrook, Illinois 60062.

5 **Q. WHAT IS YOUR PROFESSIONAL BACKGROUND?**

6 **A.**I have been employed by Utilities, Inc. since January of 2006. Since that time I
7 have been involved in several phases of rate-making in many regulatory jurisdictions. I
8 graduated from University of Illinois at Chicago in 2000, and I am a Certified Public
9 Accountant. I had four years of public accounting/auditing experience prior to joining
10 Utilities, Inc., am a member of the Illinois CPA Society and have successfully completed
11 the utility regulation seminar sponsored by NARUC.

12 **Q. PLEASE EXPLAIN YOUR JOB RESPONSIBILITIES AT UTILITIES, INC.**

1 **A.** My responsibilities include: financial analysis of individual subsidiaries of
2 Utilities, Inc., preparation of rate applications, facilitation of regulatory audits, and the
3 submission of testimony and exhibits to support rate applications.

4 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

5 **A.** The purpose of my testimony is to sponsor the Application of Southland Utilities,
6 Inc. ("Application") for an increase in its rates for water and sewer services provided to
7 its service area in South Carolina, which was filed with the Commission on June 25,
8 2007.

9 **Q. PLEASE DESCRIBE SOUTHLAND UTILITIES, INC.**

10 **A.** Southland Utilities, Inc. ("Southland" or "Company") is a wholly owned
11 subsidiary of Utilities, Inc. ("UI"). Southland was incorporated on November 19, 1976
12 for the purpose of owning and operating water utility systems and, as of December 31,
13 2006, Southland serves 175 water customers in the Creekwood and Cedarwood
14 subdivisions in Lexington County. Southland maintains an operations and customer
15 service office in West Columbia, South Carolina. Customer payments, meter readings
16 and service orders are processed from this office. Administrative functions such as
17 regulatory services, management, accounting, human resources and data processing are
18 performed from the UI office in Northbrook, Illinois.

19 **Q. PLEASE DESCRIBE UI.**

20 **A.** UI is unique within the water and sewer industry in many respects. From its
21 inception almost 40 years ago, UI has concentrated on the purchase, formation and
22 expansion of smaller water and/or sewer utility systems. Often, these types of systems

1 have experienced operational or financial difficulties or a combination of both. At the
2 present time, UI has over 90 systems that provide service to approximately 300,000
3 customers in 17 states.

4 **Q. DO SOUTHLAND CUSTOMERS BENEFIT FROM THE COMPANY'S**
5 **AFFILIATION WITH UI?**

6 **A.** Yes. The affiliation with UI has many benefits for Southland customers. One of
7 the primary benefits is Southland's access to a large pool of human resources from which
8 to draw upon. There are experts in various critical areas, such as construction,
9 engineering operations, accounting, data processing, billing, regulation, customer service,
10 etc. This combined expertise and level of experience is not available in a more cost
11 effective manner elsewhere.

12 Given UI's focus on water and sewer systems only, its personnel have the ability
13 to meet the challenges of this rapidly changing industry. Because of this focus, our
14 companies enjoy some unique advantages, one of which is that capital is available for
15 improvements and expansion at a reasonable cost. With increasingly more stringent
16 health and environmental standards, ready access to capital will prove vital to continued
17 quality service in the water and sewer utility business.

18 In addition, the UI group of companies has national purchasing power that results
19 in lower costs to rate payers. Expenditures for insurance, vehicles, chemicals and meters
20 are a few examples of purchases where national contracts provide tangible benefits to
21 rate-payers.

22 **Q. WHY IS SOUTHLAND REQUESTING RATE RELIEF AT THIS TIME?**

1 **A.** Under present rates, Southland is not able to meet its operating costs and earn a
2 reasonable return on its investment in the Southland system. It has been over sixteen (16)
3 years since the Company last applied for rate relief. As reflected in its application for the
4 test year ended December 31, 2006, Southland's return on its rate base was 1.41% and
5 the corresponding return on equity is (6.33%). This return on equity is well below the
6 Company's cost of equity as the Commission will hear from the Company's witness, Ms.
7 Ahern, is 11.60-12.20%. In addition, as time passes, the need for rate relief will increase.
8 Without satisfactory rate relief, Southland's ability to continue to provide safe, reliable
9 and efficient water and sewer utility services to its customers will be placed in jeopardy,
10 and Southland will be unable to meet its financial obligations. In addition, capital will
11 become more costly.

12 **Q. PLEASE DESCRIBE THE COMPANY'S APPLICATION.**

13 **A.** In addition to the proposed rate schedule, the Application contains financial
14 statements consisting of a balance sheet, income statements, rate base and rate of return
15 calculation, a test year revenue calculation under current rates, a revenue calculation
16 under proposed rates, and a schedule of current and projected customers. Also included
17 are the most recent approval letters from DHEC and a sample customer bill form.

18 **Q. THE APPLICATION ALSO SEEKS APPROVAL FOR A MODIFICATION FOR**
19 **CERTAIN TERMS AND CONDITIONS OF PROVIDING THESE SERVICES,**
20 **DOES IT NOT?**

21 **A.** Yes, but Mr. Haas will present testimony supporting the Company's request in
22 that regard.

1 **Q. WOULD YOU PLEASE SUMMARIZE THE PROPOSED RATE CHANGES IN**
2 **THE COMPANY'S WATER RATE SCHEDULE?**

3 **A.** Exhibit A of the Application contains the Company's Schedule of Proposed
4 Water Rates and Charges. The Company has proposed to increase the water customers
5 Residential Base Facility Charge and the Commercial Base Facility Charge from the
6 current charge of \$7.00 per month to \$21.79 per month and the Commodity Charge from
7 \$2.60 per 1,000 gallons or 134 cubic feet ("cft") to \$8.09 per 1,000 gallons or 134 cft.

8 **Q. WERE THE FINANCIAL SCHEDULES ATTACHED TO THE APPLICATION**
9 **PREPARED BY YOU OR UNDER YOUR DIRECTION?**

10 **A.** Yes, the schedules attached to the General Rate Case Application were prepared
11 by me and are attached as Exhibit B to the application.

12 **Q. PLEASE DESCRIBE THESE SCHEDULES.**

13 **A.** The Financial Statements and related schedules submitted with the application
14 consist of a Balance Sheet, Income Statement, Rate Base and Rate of Return,
15 Consumption Analysis under Present rates and Consumption Analysis under Proposed
16 rates. The test year chosen is the year ended December 31, 2006 which was the most
17 recent twelve-month period available at the time of the Company's filing.

18 Schedule A is the Balance Sheet as of December 31, 2006. At the end of the test
19 year, Southland had assets of approximately \$357,000. This includes over \$295,000 of
20 Net Utility Plant.

21 Schedule B is the Income Statement for the test year and is comprised of two
22 pages. Page 1 is the Income Statement for Water Operations and page 2 is a list of brief

1 explanations for the pro forma adjustments made to the various income statement
2 accounts. With the pro forma adjustments proposed in Schedule B and in my testimony,
3 the Company's operating expenses have increased \$71,000, or 160%, since its last rate
4 case. The increase in expenses contributes to the Company's need for rate relief.

5 Schedule C is the Rate Base and Rate of Return Statement and is comprised of
6 two pages. Page 1 is the Rate Base and Rate of Return Statement for Water Operations,
7 and page 2 is Explanation of Adjustments to Rate Base and Rate of Return.

8 Schedule D is the Consumption Analysis under Present rates, Schedule E is the
9 calculation of revenues under Proposed Rates, and Schedule F demonstrates Southland's
10 current and projected customers.

11 **Q. WOULD YOU PLEASE PROVIDE A BRIEF EXPLANATION OF THE PRO**
12 **FORMA ADJUSTMENTS INCLUDED ON SCHEDULE B?**

13 **A.** Uncollectible accounts were adjusted based on the proposed increase in revenues
14 and water revenues have been adjusted to tie to test year consumption data at test year
15 rates. Operator and Office salaries were annualized as of December 31, 2006 and have
16 been adjusted to reflect a 4% raise increase. Pension & Other Benefits were annualized to
17 match end of test year salaries and wages. Regulatory Commission Expense has been
18 adjusted to reflect the cost of the current proceeding over a three year period.
19 Depreciation and amortization expense was adjusted to reflect the annualized
20 depreciation expense on end of test year plant as well as pro forma additions to plant.
21 Amortization of Contributions in Aid of Construction ("CIAC") was adjusted to reflect
22 the annualized amortization of CIAC. Taxes other than income have been adjusted for

1 changes in the payroll taxes based on current tax rates and annualized salary figures as
2 discussed above. Gross receipts tax and utility commission tax were also adjusted to
3 account for the proposed increase. Income taxes are computed on taxable income at
4 current rates (35% for federal and 5% for state). AFUDC has been eliminated for
5 ratemaking purposes. Interest Expense was synchronized using the capital structure of
6 the consolidated Utilities, Inc. group of companies, consisting of a debt / equity ratio of
7 59.94% / 40.90% and an embedded cost debt of 6.58%. Certain operation and
8 maintenance expenses were increased by the Consumer Price Index for anticipated
9 changes after the test year. Finally, certain expenses relating to fines and penalties have
10 been removed for the purposes of this rate filing.

11 **Q. WHAT IS CONTAINED IN SCHEDULE C?**

12 A. Schedule C is the Rate Base and Rate of Return Statement. As of December 31,
13 2006, Southland has a rate base of \$154,252. As indicated on page 1 of Schedule C,
14 Southland earned a 1.41% return on rate base during the test year. This is well below the
15 Company's cost of capital.

16 **Q. WHAT PRO FORMA ADJUSTMENTS ARE REFLECTED ON SCHEDULE C?**

17 A. Working capital has been calculated at 1/8 of the test year's operating expenses.
18 A pro forma adjustment is made to working capital to match the pro forma operating
19 expenses. A pro forma adjustment has been made to include actual and estimated
20 capitalized time. A pro forma adjustment has been made to include pro forma plant.
21 Accumulated depreciation has been adjusted to account for general ledger additions,
22 capitalized time additions and pro forma plant additions and retirements.

1 Q. WHAT RATEMAKING METHODOLOGY DOES THE COMPANY PROPOSE
2 THAT THE COMMISSION EMPLOY IN THIS CASE?

3 A. The Company proposes that its rates be determined utilizing the rate of return on
4 rate base methodology.

5 Q. WHY HAS THE COMPANY REQUESTED THAT THE COMMISSION
6 DETERMINE THE REVENUE REQUIREMENT IN THIS PROCEEDING
7 USING THE RATE OF RETURN ON RATE BASE METHODOLOGY?

8 A. Heretofore, Southland's rates were set by the Commission using a variation of the
9 operating ratio approach. In its Order Number 91-221, issued March 18, 1991 in Docket
10 Number 90-551-W, the Commission determined that it would use the operating ratio
11 and/or operating margin as guides in determining just and reasonable rates. The
12 Commission described operating ratio as the percentage obtained by dividing total
13 operating expenses by operating revenues and that operating margin is determined by
14 dividing the net operating income for return by the total operating revenues of the utility.

15 Q. WHY DO YOU REFER TO THIS APPROACH AS A VARIATION OF THE
16 OPERATING RATIO APPROACH?

17 A. First, the Commission itself has previously noted in various Orders, including
18 Order Number 90-651, issued July 16, 1990 in Docket Number 89-602-W/S, its operating
19 margin calculation is the obverse calculation of operating ratio. Secondly, the regulatory,
20 finance, and accounting literature relating to public utilities does not recognize operating
21 margin as a ratemaking approach, but instead discusses operating ratio. Third, as
22 described in the literature, the operating ratio approach is defined as a process in which a

1 utility's revenue requirement is determined by dividing operating expenses by a target
2 operating ratio that the regulatory body deems necessary to permit the utility to generate
3 revenues adequate to cover operating expenses, depreciation, taxes and capital costs.

4 **Q. WOULD YOU PLEASE IDENTIFY THE LITERATURE YOU ARE REFERRING**
5 **TO?**

6 **A.** There are a number of works which refer to operating ratio as a ratemaking
7 approach. One such publication is *Accounting for Public Utilities* by Robert L. Hahne
8 and Gregory E. Aliff, which describes operating ratio methodology as being particularly
9 appropriate for application in the transportation industry because most of the equipment
10 employed in that industry is leased. In discussing application of the operating ratio
11 approach to water and wastewater utilities, at page 3-5 of this publication the authors
12 state:

13 Other examples of companies not having the attributes that are
14 conducive to rate base/rate of return measurements are found in the
15 water/wastewater industry. Although water/wastewater companies
16 are capital intensive, many situations exist in which customers
17 provide substantial portions of the capital funds in the form of
18 contributions in aid of construction. These customer-provided
19 funds are normally deducted from the rate base and often result in
20 **nominal (or even negative) rate base amounts.** If the capital that
21 investors supply is **relatively insignificant** or **even nonexistent**,
22 that capital does not provide an adequate foundation for using the
23 rate base/rate of return measure of service costs, and an alternative
24 measure, such as the operating ratio, is applied.

25
26 A copy of the portions of this publication to which I refer are attached in the Appendix to
27 my testimony. Another such publication is the course materials prepared by Dr. Janice
28 A. Beecher, then Director of Regulatory Studies for the Center for Urban Policy and the
29 Environment at Indiana University, for the NARUC Water Committee Eastern Utility

1 Rate School conducted in October of 1997. Dr. Beecher's materials recognize that the
2 operating ratio method is a "[m]odification of [t]raditional [r]egulation" that "is used for
3 smaller systems **with little or no rate base**". A copy of these course materials are also
4 included in the Appendix to my testimony. A third such publication is the Deloitte &
5 Touche *Public Utilities Manual, A Service for Public Utilities*, which simply identifies
6 the operating ratio methodology as one of three ratemaking methods traditionally
7 employed, with cost of service and debt service being the other two. Deloitte & Touche
8 notes that the operating ratio methodology is rarely used except in the transportation
9 industry and do not discuss it further in their publication. A copy of the portion of this
10 publication referencing operating ratio is also included in the Appendix to my testimony.

11 **Q. IS THE OPERATING MARGIN OR OPERATING RATIO APPROACH**
12 **UTILIZED BY ANY OF THE OTHER STATE REGULATORY BODIES WITH**
13 **JURISDICTION OVER OTHER SUBSIDIARIES OF UTILITIES, INC.?**

14 **A.** None of the Company's sister subsidiaries are regulated by a state utility
15 commission that employs the operating margin approach used by the Public Service
16 Commission of South Carolina. Only one state utility commission, the North Carolina
17 Utilities Commission, employs the operating ratio methodology to regulate our sister
18 subsidiaries. And, there, the policy is that the operating ratio approach is employed only
19 where it generates **more** revenue than does the rate of return on rate base approach. As I
20 mentioned earlier, the Company's sister subsidiaries operate in seventeen states.

21 **Q. WHAT CONCLUSIONS DO YOU DRAW FROM THE LITERATURE, MS.**
22 **GEORGIEV?**

1 A. It is clear from the literature that the rate of return methodology is the ratemaking
2 approach traditionally employed in the regulation of public utility rates and that the
3 operating ratio methodology is rarely used. Operating margin is not recognized as an
4 alternative. Moreover, in the case of water and sewer utilities, operating ratio is only
5 appropriate for use when a utility's rate base has been substantially reduced by CIAC.
6 Stated another way, where a water or sewer utility has no significant rate base, the rate of
7 return approach is not appropriate. Further, it is my understanding that the Supreme Court
8 of South Carolina has recognized that it is not appropriate to use operating methodology
9 with companies such as Southland.

10 Q. **COULD YOU PLEASE EXPLAIN THAT LAST STATEMENT?**

11 A. While I am not an attorney, it is my understanding that in Heater of Seabrook, Inc.
12 v. Public Service Com'n of South Carolina, 324 S.C. 56, 478 S.E.2d 826 (1996), the
13 Supreme Court held that the operating margin methodology is appropriate where a
14 utility's rate base has been substantially reduced by customer donations, tap fees, CIAC,
15 and book value in excess of investment. Further, the court found that operating margin is
16 less appropriate for utilities that have large rate bases and need to earn a rate of return
17 sufficient to obtain the necessary equity and debt capital that a larger utility needs for
18 sound operation.

19 Q. **HAS SOUTHLAND'S RATE BASE BEEN SUBSTANTIALLY REDUCED AS**
20 **CONTEMPLATED BY THE SUPREME COURT?**

1 A. No, it has not. In fact, Southland's total rate base makes up approximately 46%
2 of its gross plant in service. Its rate base has only been reduced 41% by depreciation and
3 CIAC.

4 **Q. WHAT HAS BEEN THE EXPERIENCE OF UTILITIES, INC. SUBSIDIARIES IN**
5 **OTHER STATES?**

6 A. Our experience has been that the only recognized alternative method to rate of
7 return on rate base regulation for water and sewer utilities is operating ratio and that it is
8 employed only in one state, for smaller companies that have little or no rate base, are
9 incapable of having a well-defined capital structure, have a cost of capital which cannot
10 be easily determined and which will benefit on the revenue side when the alternative is
11 employed.

12 **Q. DOES THE COMPANY FIT THE PROFILE OF A WATER OR WASTEWATER**
13 **UTILITY FOR WHICH THE OPERATING RATIO/OPERATING MARGIN**
14 **METHOD IS APPROPRIATE?**

15 A. Definitely not. The Company has a rate base in excess of \$150,000 of investor
16 provided capital which is substantial. Further, Southland's rate base has not been
17 substantially reduced and, therefore, operating margin methodology is not appropriate.
18 And, the Company's capital structure is well defined as can be gleaned from the
19 testimony of Company witness Ahern. Use of our parent's capital structure is in keeping
20 with generally accepted cost of capital analyses among regulatory bodies and has been
21 approved by this Commission in other cases including sister companies of Southland.
22 And, also as Ms. Ahern's testimony reflects, our cost of capital is easily determined.

1 **Q. IS RATE OF RETURN ON RATE BASE TREATMENT APPROPRIATE FOR**
2 **THE COMPANY?**

3 **A.** Absolutely. The Company has a substantial rate base and needs to earn a rate of
4 return that is sufficient to obtain the necessary equity and debt capital that a larger utility
5 needs for sound operation.

6 **Q. MS. GEORGIEV, DOES THE COMPANY SEEK TO INCLUDE ANY**
7 **PAYMENTS TO AFFILIATED ENTITIES?**

8 **A.** Yes. Included in the Company's test year expenses and included in capital
9 expenditures are payments to Bio-Tech, Inc. Bio-Tech is a South Carolina corporation
10 which, like Southland, is a wholly-owned subsidiary of Utilities, Inc. Bio-Tech's
11 business focuses on two primary services, one of which is sludge hauling and disposal
12 and the other being water and wastewater plant maintenance, repair and construction.
13 Because Southland only provides water services to its customers, all of the payments to
14 Bio-Tech are for water plant maintenance services.

15 **Q. DOES BIO-TECH PROVIDE SERVICES ONLY TO THE COMPANY AND**
16 **OTHER WHOLLY-OWNED SUBSIDIARIES OF UTILITIES, INC.?**

17 **A.** No. Bio-Tech also serves other public utilities and governmentally owned
18 utilities such as municipalities, counties, special purpose districts and public service
19 districts.

20 **Q. HOW ARE BIO-TECH'S CHARGES FOR SERVICES TO THE COMPANY**
21 **DETERMINED?**

22 **A.** Bio-Tech charges the Company the same rates it charges to any other similarly
23 situated customer whether it is affiliated with the Company or not – including

1 governmental customers. In other word, Bio-Tech's charges to Southland for water plant
2 maintenance, repair and construction are at market rates.

3 **Q. WOULD NOT THE EXPENSES ASSOCIATED WITH THE SERVICES**
4 **PROVIDED TO THE COMPANY BY WATER SERVICE CORPORATION**
5 **ALSO CONSTITUTE AFFILIATE PAYMENTS?**

6 **A.** No, they would not because there are no payments involved, only expense
7 allocations. As the Commission knows from the nearly thirty years worth of rate cases it
8 has considered involving the Company and other affiliates of Utilities, Inc., Water
9 Service Corporation, or WSC, is a wholly owned subsidiary of Utilities, Inc. that
10 provides management services to Southland and other operating subsidiaries in the
11 sixteen states where Utilities, Inc. has operations. WSC is captive in the sense that its
12 services, which include management, payroll, tax, accounting, procurement services, are
13 only provided to subsidiaries of Utilities, Inc. As the Commission's decisions through
14 the years accepting this arrangement reflect, it is cost efficient since it avoids duplication
15 of these services and functions for each operating subsidiary. This conclusion is tested in
16 each rate case by an audit of the allocations and the records of WSC.

17 **Q. DOES THIS CONCLUDE YOUR TESTIMONY AT THIS TIME?**

18 **A.** Yes, it does.

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2007-244-W

2007 SEP 14 PM 4:13
REC'D
SOUTH CAROLINA
PUBLIC SERVICE COMMISSION

IN RE:)

Application of Southland Utilities, Inc.)
for adjustment of rates and charges)
for the provision of water service.)

DIRECT TESTIMONY

OF

BRUCE T. HAAS

Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS ADDRESS?

A. My name is Bruce T. Haas, and my business address is 110 Queen Parkway, West
Columbia, South Carolina 29169.

Q. WHERE ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am Regional Director of Operations for Southland Utilities, Inc. in South Carolina
and for six other operating subsidiaries of Utilities, Inc., four of which are in South Carolina
and two of which are in Georgia.

**Q. HOW LONG HAVE YOU BEEN EMPLOYED IN THE WATER AND SEWER
UTILITY INDUSTRY?**

A. Approximately 29 years.

Q. WHAT IS YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND?

A. I first began my employment as a meter reader and maintenance worker in 1978
by Lake Holiday Utilities, Corp., which is also a subsidiary of the Company's parent,
Utilities, Inc. During the next several years, I was promoted to Operator and Operating
Manager positions for a number of Utilities, Inc. subsidiary systems, while earning
various water and wastewater licenses in Illinois and Ohio, including the highest levels of

1 water treatment and wastewater treatment licenses from the Illinois EPA. I eventually
2 became the Area Manager for the Peoria, Illinois region, overseeing the water and
3 wastewater facilities in this area. In 1989, I transferred to Charlotte, North Carolina
4 where I accepted the position of Area Manager for several areas for Carolina Water
5 Service, Inc. of North Carolina, a sister subsidiary of the Company, a job I also
6 performed for the Company which involved operations of the River Hills and Tega Cay
7 Systems in York County, South Carolina. I was eventually promoted to Regional
8 Manager while in Charlotte. During this time I also obtained various water and
9 wastewater licenses in Water Treatment, Water Distribution, Wastewater Collection, and
10 Backflow/Cross-Connection certifications from the State of North Carolina and took
11 night courses in Civil Engineering Technology. I also hold the highest levels of water
12 and wastewater certifications for Water Treatment, Water Distribution, Wastewater
13 Treatment and Wastewater Collection from the State of South Carolina. In 2002, I was
14 promoted to my current position as Regional Director and given responsibility for the
15 Company's systems in South Carolina, along with two subsidiary companies located in
16 Georgia. However, the majority of my time is spent working on issues pertaining to the
17 Company's South Carolina systems.

18
19 **Q. WHAT ARE YOUR DUTIES WITH SOUTHLAND UTILITIES, INC.?**

20 **A.** I am responsible for making sure our customers receive the best possible service.
21 As such, I am responsible for all operating personnel, facilities, maintenance and capital
22 projects. In addition, I am responsible for communications with state and federal
23 regulators, including state utility commissions and environmental authorities as well as
24 other operational issues.

25
26 **Q. WOULD YOU DESCRIBE YOUR EXPERIENCE IN WORKING WITH OR**
27 **TESTIFYING BEFORE STATE UTILITY COMMISSIONS REGARDING RATE**
28 **CASES?**

1 A. Yes. I have testified before the commissions in North Carolina and South
2 Carolina, along with working with staff of the Illinois Commerce Commission during my
3 tenure with the Company.
4

5 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING,**
6 **MR. HAAS?**

7 A. The purpose of my testimony is to provide the Commission with a brief overview
8 of our South Carolina operations and our continued efforts to provide our customers with
9 the best possible water utility service and to support the portion of the Company's
10 application for modification of certain of the terms and conditions pertaining to water
11 service.
12

13 **Q. MR. HAAS, WOULD YOU BRIEFLY DESCRIBE THE COMPANY'S WATER**
14 **AND SEWER OPERATIONS HERE IN SOUTH CAROLINA?**

15 A. Yes. Southland Utilities, Inc., which I will refer to as Southland or the Company,
16 currently serves 175 water customers located in Lexington County. We deliver safe and
17 reliable water service to our customer's homes through the pumping and treatment of
18 ground water via our public water supply wells.
19

20 **Q. WITHIN THE COMPANY, WHO IS RESPONSIBLE FOR ENSURING THAT**
21 **CUSTOMERS ARE RECEIVING THE BEST POSSIBLE SERVICE?**

22 A. I have the overall responsibility for ensuring that our customers receive the best
23 possible service. In order to discharge this responsibility, I make every effort to see that
24 the Company hires and maintains a highly qualified and professional staff of individuals.
25 Together, we continue to make customer satisfaction the primary responsibility of each
26 and every employee.
27

1 **Q. WHAT ONGOING PROGRAMS DOES THE COMPANY HAVE IN PLACE TO**
2 **HELP ENSURE THAT CUSTOMERS RECEIVE QUALITY UTILITY**
3 **SERVICE?**

4 **A.** First and foremost, we make certain that our operations personnel are duly
5 certified by environmental regulatory authorities. We provide training resources in order
6 to increase their knowledge and education in the water and wastewater fields. Many of
7 our licensed operators hold the highest levels of water and wastewater certifications from
8 the State of South Carolina and we also employ two (2) registered Professional
9 Engineers. We also hold periodic staff meetings to specifically address service concerns,
10 as well as to increase employee sensitivity to customer satisfaction. Topics covered
11 include service problems we have encountered, steps taken to solve these problems, new
12 regulations and cost control measures. These regular meetings also serve as an
13 opportunity to reinforce our customer service philosophy, as well as to keep each of us
14 focused on what is important – our customers. Continuing education programs are
15 provided for all employees, including classes routinely conducted by Company staff as
16 well as outside consultants. Our most valuable resource is our personnel. By keeping up
17 to date with new methods and changing regulations, we enable them to provide better
18 service and hold down costs.

19 To ensure that our customers are provided the best possible service we also
20 employ a capital improvements program, as well as ongoing operational programs such
21 as routine testing and periodic water main flushing to improve water quality, a valve
22 exercising program, and a 24-hour-a-day, seven-day-a-week on-call emergency service.
23 Facilities are checked 7-days per week, 365-days per year. The Company also makes
24 regular upgrades to the Facilities including the replacement of various well buildings, the
25 installation of additional chemical feed equipment, upgrades to the plumbing and
26 electrical at various wells, the replacement of the water storage/hydropneumatic storage
27 tank and painting of all the facilities. These programs and upgrades ensure that
28 company-wide facilities are properly maintained and safety standards met.

1 Communication with our customers and community leaders regarding issues
2 which may have an impact on the quality or cost of service is also an important aspect of
3 our business. As increased environmental regulation continues to place upward pressure
4 on the cost of providing service, it becomes more important for us to inform customers of
5 the measures we must take to ensure that their drinking water is safe. Included in these
6 customer communication efforts would be attendance at Property Owners Association
7 (POA) meetings when we are notified, customer letters, bill inserts and back-of-the-bill
8 messages, the submission of information to local media outlets, annual Consumer
9 Confidence Reports detailing the Safe Drinking Water Act compliance, and new
10 customer welcome packets introducing our company and providing contact information
11 for problems or concerns.

12 In addition to these efforts, the Company has also implemented an automatic
13 message delivery system whereby we are able to provide specific information to
14 customers in a particular geographic area or subdivision, advising them of upgrades or
15 repairs being done to their system. We are also able to notify customers in advance of
16 scheduled repairs, along with boil water advisories following water line repairs, periodic
17 flushing of the water system, or other updates regarding repairs being made.

18
19 **Q. HAS INCREASED FEDERAL REGULATION OF THE WATER UTILITIES**
20 **CONTINUED TO HAVE AN IMPACT ON THE COMPANY?**

21 **A.** Absolutely, yes. The Safe Drinking Water Act, or SDWA has changed the way in
22 which water utilities conduct their business. DHEC implements statutes and regulations
23 adopted by the State of South Carolina under these federal enactments. Additional costs
24 have been placed upon water utilities to comply with more exacting limits in this area.
25 While we have already complied with many of the requirements contained in the
26 reauthorization of the SDWA, new requirements continue to be promulgated.

27
28 **Q. WHAT IMPACT DOES THIS HAVE ON THE COMPANY'S CUSTOMERS?**

1 **A.** For one thing, the cost of providing service obviously increases; but, in turn our
2 customers receive the benefit of safer drinking water that is free of harmful contaminants.
3 Our customers also benefit from our commitment to provide them with safe and reliable
4 utility service which is reinforced by compliance. Understandably, customers may be
5 unaware of our efforts to meet regulatory requirements since they do not necessarily see a
6 perceptible change in the quality of service and therefore, may also be largely unaware of
7 the hidden benefits of compliance. Without the benefits of compliance, residential
8 development simply cannot be sustained – much less begun. And, of course, these
9 benefits accrue to the overall well-being and value of the communities we serve.

10
11 **Q. MR. HAAS, YOU ALSO STATED THAT A PURPOSE OF YOUR TESTIMONY**
12 **IS TO SUPPORT THE COMPANY'S REQUEST FOR MODIFICATION OF**
13 **CERTAIN TERMS AND CONDITIONS PERTAINING TO THE PROVISION OF**
14 **THE COMPANY'S SERVICES; WOULD YOU PLEASE DESCRIBE THESE**
15 **MODIFICATIONS?**

16 **A.** Certainly. The first modification is to the rate schedule provisions pertaining to
17 service provided to rental units and is set out at page one of the water schedule. Since the
18 Company's last rate case approximately seventeen (17) years ago, the legislature has
19 enacted a statute restricting the ability of any utility – whether governmental or investor
20 owned – to require a landlord to be financially responsible for utility service provided to
21 a tenant. This effectively invalidated the Commission's long-standing regulation which
22 permitted this practice. A subsequent amendment to this legislative enactment permits a
23 utility to require a landlord to be responsible for service provided to a tenant in a multi-
24 unit building with more than three units which are not separately metered or connected.
25 This proposed modification is intended to bring the Company's rate schedule into line
26 with the current law.

27 Another proposed modification consists of a new section six beginning on page
28 two. Regulations promulgated by DHEC under the State Safe Drinking Water Act
29 require the elimination of cross connections to public water systems which have the

1 potential for contaminating safe drinking water. Typically, a cross connection in our
2 customer base will consist of a separate water irrigation line which may or may not be
3 metered. The DHEC regulations prohibit any person from installing, permitting to be
4 installed or maintaining a cross connection unless there is an approved backflow
5 prevention device installed between the public water system and the potential source of
6 contamination. DHEC regulations further require that certain backflow prevention
7 devices be inspected annually by a DHEC certified tester. The modification to our rate
8 schedule provides notice to customers that any cross connections must be addressed by
9 an approved backflow prevention device and that the customer is responsible for the
10 annual inspection. In the event that a customer does not comply, this provision would
11 permit the Company to arrange for an inspection and bill the customer the costs of same
12 without markup. The Company has an obligation under the regulation to ensure that no
13 unprotected cross connections are in place and customers have an obligation under the
14 regulation not to install or maintain unprotected cross connections. This provision
15 insures that unaffected or compliant customers do not bear the cost of enforcing
16 compliance with this program by other customers.

17 The third modification deletes certain provisions of the rate schedule which
18 pertain to payments made by persons making contributions in aid of construction. This
19 section was required by the federal Tax Reform Act of 1986 and required that the amount
20 paid or transferred to a utility by customers, builders or developers for CIAC (including
21 water service connection charges and plant impact fees) be increased in an amount equal
22 to the income taxes owed on the transfer. This provision of the federal Tax Reform Act
23 has been repealed and is no longer applicable to such contributions. The final
24 modifications are to incorporate the pertinent DHEC regulations relating to single family
25 equivalents and to correct a technical citation error referring to the Commission's Rules
26 and Regulations.

27
28 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

29 **A.** Yes.

EXHIBIT C

**THE OFFICE OF REGULATORY STAFF
SETTLEMENT TESTIMONY AND
EXHIBITS
OF
M. ELIZABETH FORD**



**DOCKET NO. 2007-244-W
APPLICATION OF
SOUTHLAND UTILITIES, INC.
FOR ADJUSTMENT OF RATES AND CHARGES**

SETTLEMENT TESTIMONY OF M. ELIZABETH FORD

FOR

THE OFFICE OF REGULATORY STAFF

DOCKET NO. 2007-244-W

IN RE: SOUTHLAND UTILITIES, INC.

**Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND
OCCUPATION.**

A. My name is Elizabeth Ford, and my business address is 1441 Main Street, Suite 300, Columbia, South Carolina 29201. I am employed by the state of South Carolina, Office of Regulatory Staff ("ORS") as a Program Specialist for the Water and Wastewater Department.

**Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND
EXPERIENCE.**

A. In 2003, I graduated from Clemson University with a Bachelors of Arts in Sociology. After graduating from Clemson University, I was employed by the South Carolina Public Service Commission in Consumer Services assisting telecommunications customers. Later, I joined ORS with the transfer of consumer services responsibilities. In September of 2005, I was promoted to Lifeline Intake Manager. As the Intake Manager, I assisted and verified low-income individuals for the South Carolina Lifeline and Link-up program. In June 2007, I became the Program Specialist for the Water and Wastewater Division.

1 **Q. CAN YOU DESCRIBE YOUR RESPONSIBILITIES AS THE PROGRAM**
2 **SPECIALIST FOR WATER AND WASTEWATER WITH THE OFFICE**
3 **OF REGULATORY STAFF?**

4 A. Yes. My responsibilities include performing analyses and providing testimony in
5 formal proceedings before the Commission regarding rate base determinations,
6 rate schedules, general terms and conditions, cost of service and depreciation
7 studies, and compliance with applicable rules and regulations. In addition, my
8 responsibilities include monitoring federal activity to determine its impact on state
9 regulations and policies.

10 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
11 **PROCEEDING?**

12 A. The purpose of my testimony is to provide a brief overview of the Settlement
13 Agreement reached between ORS and Southland Utilities, Inc. ("Southland") in
14 this proceeding and to explain why this Settlement Agreement is in the public
15 interest. Specifically, I will focus on Southland's compliance with the Public
16 Service Commission ("Commission") rules and regulations, ORS's audit of
17 Southland's water facilities, test-year revenue and proposed revenue adjustments,
18 and financial assurance requirements.

19 **Q. ARE THE FINDINGS OF YOUR REVIEW CONTAINED IN THIS**
20 **TESTIMONY AND ACCOMPANYING EXHIBITS?**

21 A. Yes, my testimony and the attached exhibits detail ORS's findings and
22 recommendations.

1 **Q. PLEASE EXPLAIN HOW YOU COMPILED INFORMATION FOR YOUR**
2 **TESTIMONY AND EXHIBITS.**

3 I used ORS Business Audit results, information provided by Southland in its
4 application and additional information provided by Southland during the course of
5 our investigation. I also reviewed Southland's financial statements and
6 performance bond documents submitted to the Commission.

7 **Q. PLEASE PROVIDE AN OVERVIEW OF THE LOCATION, SERVICE**
8 **TYPE AND CUSTOMER BASE SERVED BY SOUTHLAND.**

9 **A.** Southland is a public utility providing water supply/distribution services. As a
10 subsidiary of Utilities, Inc., Southland is a National Association of Regulatory
11 Utility Commissioners ("NARUC") Class C water utility in South Carolina.
12 Southland's service area includes a portion of Lexington and Richland County.
13 According to Southland's application for the test year ending December 31, 2006,
14 water services were provided to 175 residential customers. Customer complaints
15 are received and managed by the office in West Columbia, South Carolina. ORS
16 received no complaints during Southland's test year.

17 **Q. PLEASE EXPLAIN EXHIBIT MEF-1 OF YOUR REPORT.**

18 Exhibit MEF-1 provides a summary of the Business Office Compliance Review
19 completed by ORS. During the Business Office Compliance Review, ORS
20 reviewed Southland's office records to determine compliance with Commission
21 rules and regulations.

22 Southland's customer bills, disconnect notices, payment plans and deposit
23 receipts contain all required information and are issued to customers in a timely

1 manner. Southland has met the Annual Report and Gross Receipts requirements
2 as well.

3 **Q. PLEASE EXPLAIN EXHIBIT MEF-2 OF YOUR REPORT.**

4 **A.** Exhibit MEF-2 is a summary of the water system supply/distribution system
5 completed by ORS on August 2, 2007. Southland currently provides adequate
6 water distribution services to its residential customers. Required operator logs
7 were being kept at the facilities audited by ORS. As required by the Commission
8 regulations, general housekeeping items including system entry points, access
9 roads and signage were found to be satisfactory during the audit. Safe drinking
10 water quality standards are being met according to the recent Department of
11 Health and Environmental Control (DHEC) sanitary survey reports. When
12 problems are identified, Southland is addressing the issues in a timely manner.

13 **Q. EXPLAIN THE TEST YEAR REVENUE INFORMATION COMPUTED**
14 **BY ORS FOR SOUTHLAND.**

15 **A.** Exhibit MEF-3 provides two types of comparisons of Southland's service revenue
16 and proposed rates. ORS used total number of invoices issued during the test year
17 ending December 31, 2006 and Southland's current and proposed rates as the
18 basis for all calculations.

19 In summary, ORS calculated Southland's test year service revenue for water
20 operation, as adjusted, of \$47,109. For, comparison purposes, ORS calculated the
21 proposed Settlement water service revenues of \$106,454.

22 **Q. PLEASE EXPLAIN EXHIBIT MEF-4 OF YOUR REPORT.**

1 A. Exhibit MEF-4 is a summary of the current PSC approved rates for Southland,
2 Southland's requested rates in their application and the Settlement Agreement
3 proposed rates for Southland.

4 **Q. PLEASE EXPLAIN THE STATUS OF THE PERFORMANCE BOND FOR**
5 **SOUTHLAND.**

6 A. The purpose of a utility's performance bond is to provide sufficient financial
7 assurance to both the customer and the Commission in the event that the utility
8 fails to provide safe and adequate service. Pursuant to 26 S.C. Code Regs. 103-
9 712.3.1, "the amount of bond shall be based on, but not limited to, the total
10 amount of the following categories of expenses for twelve months: Operation and
11 Maintenance Expenses, General and Administrative Expenses, Taxes Other Than
12 Income Taxes, Income Taxes, and Debt Service including Interest Expenses." The
13 bond amount is also set forth in S.C. Code Ann. Section 58-5-720 (Supp. 2006).
14 The Commission's regulations state that the bond amounts must range from an
15 amount not less than \$100,000 and not more than \$350,000.

16 Southland has a current performance bond filed with the Commission for water
17 operations in the form of an Irrevocable Letter of Credit ("ILC") as surety in the
18 amount of \$100,000 for water. Based on the expenses from the test year and
19 using the criteria set forth in 26 S.C. Code Regs. 103-712.3.1, ORS determined
20 that Southland's current Performance bond (Exhibit MEF-5) satisfies the criteria
21 as set forth in S.C. Code Ann. Section 58-5-720 (Supp. 2006).

1 **Q. WHAT IS ORS'S POSITION REGARDING SOUTHLAND'S REQUEST**
2 **TO ADD TERMS AND CONDITIONS RELATING TO CROSS-**
3 **CONNECTION TESTING?**

4 **A.** ORS supports Southland's proposed addition of the language requiring its water
5 customers to conduct cross connection inspection pursuant to 24A S.C. Code
6 Ann. Regs. 61-58.7.F (Supp. 2006). ORS supports this provision provided the
7 customer is given a 30-day advance written notice of the recurring annual date
8 when the customer must have their backflow prevention device tested by a
9 licensed, certified tester. The notice shall include a link to the DHEC website that
10 has the list of certified testers and their phone numbers as well as Southland's
11 telephone number. Should the customer fail to provide a report of the test by the
12 licensed, certified tester within that 30-day time period, the Company will have
13 the backflow device tested by an independent, licensed and certified tester and
14 will bill the costs of that test to the customer on the next bill without markup.

15 **Q. DOES THAT CONCLUDE YOUR TESTIMONY?**

16 **A.** Yes it does.
17
18
19
20
21
22
23

EXHIBIT INDEX OF THE WATER/WASTEWATER DEPARTMENT

THE OFFICE OF REGULATORY STAFF

DOCKET NO. 2007-244-W

SOUTHLAND UTILITY, INC.

M. ELIZABETH FORD SETTLEMENT TESTIMONY

EXHIBIT INDEX

<u>EXHIBIT NO.</u>	<u>EXHIBIT TYPE</u>	<u>PREPARED BY</u>
MEF-1	ORS Business Office Compliance Review	ORS
MEF-2	ORS Water System Inspection Report	ORS
MEF-3	Service Revenue Impact	ORS
MEF-4	Southland Current and Proposed Settlement Rate Overview	ORS
MEF-5	Performance Bond Requirement	ORS

REVIEW OF WATER AND WASTEWATER SERVICES**SOUTHLAND UTILITIES, INC****DOCKET: 2007-244-W**

The Office of Regulatory Staff (“ORS”) of South Carolina performed a Business Compliance audit of the revenue, customer complaint, and customer deposit records of Southland Utilities, Inc. (“Southland”) in preparation for this rate case. Southland currently provides water service to residential customers in their service area which includes Creekwood Subdivision in Lexington County and Cedarwood Subdivision in Richland County. As of June 30, 2007, Southland provides water services to 175 single family equivalents.

The ORS Consumer Services Department did not receive any customer complaints regarding Southland during the test year. ORS determined Southland provides adequate water provision/distribution service. Southland is currently operating all water systems in compliance with all DHEC, regulations and consent orders. Southland’s wastewater provider is the city of Cayce.

The following two pages provide a summary of the ORS Business Compliance Audit results.



ORS BUSINESS OFFICE COMPLIANCE REVIEW: Water Company

Utility: Southland Utilities, Inc.
 Inspector: Elizabeth Ford
 Office: West Columbia
 Utility Type: Water
 Date: August 2, 2007
 Company Representative: Dana Reeder and Tony Ellinger

#	Compliance Regulation	In Compliance	Out of Compliance	Comments
1	All records and reports available for examination in accordance with R.103-710.	X		Customer can contact West Columbia office to receive copies of records.
2	Complaint records maintained in accordance with R.103-716.	X		All customer complaints are entered into database which tracks service orders, complaint types and resolutions.
3	Utility's rates, its rules and regulations, and its up-to-date maps and plans available for public inspection in accordance with R.103-730.	X		All documents including plans and maps are available in the West Columbia office.
4	Established procedures to assure that every customer making a complaint is made aware that the utility is under the jurisdiction of the South Carolina Public Service Commission and that the customer has the right to register the complaint in accordance with R.103-730.	X		Southland customer package provides adequate reference to PSC jurisdiction.
5	Deposits charged within the limits established by R.103-731.	X		Deposits are charged and receipted in compliance. Southland automated billing system credits deposits w/ interest at appropriate intervals. Accrued deposits remain in separate account from other revenues. Interest is reflected at proper rate authorized by PSC.
6	Timely and accurate bills being rendered to customers in accordance with R.103-732.	X		Southland issues bills every other month as stated in their tariff.
7	Bill forms in accordance with R.103-732.	X		Bill form is clear with adequate after-hours emergency contact information.
8	Adjustments of bills handled in accordance with R.103-733.	X		Invoices and adjustments are in compliance.
9	Policy for customer denial or discontinuance of service in accordance with R.103-735.	X		Deferred payment plan and payment extension agreement is available to all customers.

#	Compliance Regulation	In Compliance	Out of Compliance	Comments
10	Notices sent to customers prior to termination in accordance with R.103-735.	X		Proper notice procedure is followed.
11	Notices filed with the Commission of any violation of PSC or DHEC rules which affect service provided to it customers in accordance with R.103-714.C.	X		
12	Utility has adequate means (telephone, etc.) whereby each customer can contact the water and/or wastewater utility at all hours in case of emergency or unscheduled interruptions or service in accordance with R.103-730.	X		
13	Records maintained of any condition resulting in any interruption of service affecting its entire system or major division, including a statement of time, duration, and cause of such an interruption in accordance with R.103-714.	X		Authorized Utility Representative Form received
14	Utility advised the Commission, in accordance with R.103-712 of the name, title, address and telephone number of the person who should be contacted in connection with general management duties, customer relations, engineering operations, and emergencies during non-office hours.	X		
15	Utility verified the maps on file with the Commission include all the service area of the company.	X		
16	Number of customers the utility has at present time.	X		To date company has 175 residential water customers.
17	Utility has a current performance bond on file with the Commission. Amount of bond:	X		Southland currently has a \$100,000 irrevocable letter of credit (ILC) on file with PSC/ORS.
18	Utility maintains a documented Safety Program.	X		
19	Utility maintains a documented Emergency Response plan.	X		
20	Utility maintains a documented Preventative Maintenance plan.	X		
21	Utility submitted a current Annual Report.	X		Filed August 13, 2007
22	Utility is in compliance with Gross Receipts reporting and payment regulations.	X		Current filing and payment made.



ORS WATER SYSTEM INSPECTION REPORT

Inspection Overview

Date Inspected:	August 2, 2007
Inspector Name:	Elizabeth Ford
Docket Number:	2007-244-W
Utility Name:	Southland Utilities, Inc.
Utility Representative:	Dana Reeder and Tony Ellinger
Number of Customers:	120
System Type (distribution, well, etc):	Well and storage
Location of System:	Lexington County - Cedarwood Subdivision
Location of Utility Office:	West Columbia
Treatment Type:	pH and Chlorination
Permit #:	3250047
Last SC DHEC Compliance Rating:	Satisfactory
Frequency checked by Licensed Operator:	Daily
Wastewater Provider:	City of Cayce

Inspection Overview

	System Components Inspected	Specific Type	#	PSI	Capacity	Compliance		Comments
						Yes	No	
1	Well Sites		2	60		X		
2	Pump Houses		1			X		
3	Storage Tank	Pressurized	1		10,000	X		
3a	Storage Tank	Non-Pressurized						N/A
3b	Storage Tank	Overhead						N/A
4	Chlorinator					x		Liquid feed-bleach
5	Other Chemicals in use					x		Soda ash
6	Meters	Yes				X		
7	Fire Hydrants					X		No Hydrants/Flushing only
8	Electrical Wiring acceptable					X		
9	Piping acceptable					X		
10	Water free of air					X		Water observed clear
11	Water free of sand					X		Water observed clear
12	Water clarity					X		Water observed clear
13	System free of leaks					X		
14	Water free of observed odor					X		
15	Access road adequate					X		
16	Ability for service area to expand					X		

Additional Comments:

Upgrade complete



ORS WATER SYSTEM INSPECTION REPORT

Inspection Overview

Date Inspected:	August 2, 2007
Inspector Name:	Elizabeth Ford
Docket Number:	2007-244-W
Utility Name:	Southland Utilities, Inc.
Utility Representative:	Dana Reeder and Tony Ellinger
Number of Customers:	55
System Type (distribution, well, etc):	Well with storage
Location of System:	Lexington County - Creekwood Subdivision
Location of Utility Office:	West Columbia
Treatment Type:	pH and Chlorination
Permit #:	3250042
Last SC DHEC Compliance Rating:	Satisfactory
Frequency checked by Licensed Operator:	Daily
Wastewater Provider:	Septic

Inspection Overview

	System Components Inspected	Specific Type	#	PSI	Capacity	Compliance		Comments
						Yes	No	
1	Well Sites		4	60		X		
2	Pump Houses		4			x		
3	Storage Tank	Pressurized	1		10,000	X		
3a	Storage Tank	Non-Pressurized						N/A
3b	Storage Tank	Overhead						N/A
4	Chlorinator					X		Liquid feed-bleach
5	Other Chemicals in use					x		Soda ash
6	Meters	Yes				x		
7	Fire Hydrants	No				X		No Hydrants/Flushing only
8	Electrical Wiring acceptable					X		
9	Piping acceptable					X		
10	Water free of air					X		Water observed clear
11	Water free of sand					X		Water observed clear
12	Water clarity					X		Water observed clear
13	System free of leaks					X		
14	Water free of observed odor					X		
15	Access road adequate					X		
16	Ability for service area to expand					X		

Additional Comments:

Emergency interconnection with USSC

Southland Utilities, Inc.
2007-244-W
Rate and Revenue Comparison

EXHIBIT MEF-3

Southland Utilities, Inc. Test Year Revenues at Current Rates

Service Type	Classification	Customer	Gallnage	Usage Charge*	Service Units	Base Facilities Charge (BFC)*	Test Year Calculated Revenues
Water	Residential/Commerical	Single-family Houses - Creekwood	4,389,624	\$2.60	652	\$7.00	\$15,977
	Residential/Commerical	Single-family Houses - Cedarwood	8,064,553	\$2.60	1,452	\$7.00	\$31,132
Water Service Total			12,454,177		2,104		\$47,109

Proposed Settlement Rates and Revenue

Service Type	Classification	Customer	Gallnage	Usage Charge*	Service Units	Base Facilities Charge (BFC)*	Test Year Calculated Revenues	Proposed Calculated Revenue	Increase Amount	% Increase
Water	Residential/Commerical	Single-family Houses - Creekwood	4,389,624	\$5.87	652	\$15.85	\$15,977	\$36,101	\$20,124	55.7%
	Residential/Commerical	Single-family Houses - Cedarwood	8,064,553	\$5.87	1452	\$15.85	\$31,132	\$70,353	\$39,221	55.7%
Water Service Total			12,454,177		2104		\$47,109	\$106,454	\$59,345	55.7%

*Based upon monthly rates

Southland Utilities, Inc.
2007-244-W
Proposed Rate Comparison

EXHIBIT MEF-4

Water

Customer Classification	Description	Unit of Measure	Present Rates	Proposed Rates in Application	Proposed Settlement Rates	Change from Present Rates to Settlement Rates	% Change
Residential Water	Base Facilities Charge for single family house, condo, mobile home, apartment unit	per unit	\$7.00	\$21.79	\$15.85	\$8.85	55.84%
Commercial Water	Base Facilities Charge for hotels, stores, restaurants, offices, industry	per unit	\$7.00	\$21.79	\$15.85	\$8.85	55.84%
Commodity Charge	Commodity Charge for all customer classes provided water from Southland	per 1,000 gal	\$2.60	\$8.09	\$5.87	\$3.27	55.71%
Residential/Commercial	Water Service Connection Fee	Per SFE	\$100.00	\$100.00	\$100.00	\$0.00	0.00%
Residential/Commercial	Plant Impact Fee	Per SFE	\$400.00	\$400.00	\$400.00	\$0.00	0.00%
Residential/Commercial	Account Set-up Fee	Per Customer	\$25.00	\$25.00	\$25.00	\$0.00	0.00%
Residential/Commercial	Reconnection Fee	Per Occurance	\$35.00	\$35.00	\$35.00	\$0.00	0.00%

Southland Utilities, Inc.
2007-244-W
Performance Bond Calculation

EXHIBIT MEF-5

Southland Utilities, Inc. - Water			
Bond Value Components	Per Books	Pro Forma Present	Pro Forma Proposed
Operation & Maintenance Expenses	\$23,539	\$23,552	\$23,552
General & Administrative Expenses	\$19,733	\$34,310	\$34,310
Taxes Other Than Income	\$1,730	\$8,035	\$8,644
Income Tax (State and Federal)	(\$4,585)	(\$12,678)	\$7,326
Interest Expense	\$10,045	\$12,520	\$12,520
Bond Value Requirement	\$50,462	\$65,739	\$86,352

Current Performance Bond Structure (1)	Bond Value	Expiration Date
Irrevocable Letter of Credit	\$100,000	03/01/08

(1) As reported on Irrevocable Letter of Credit received August 2007

THE OFFICE OF REGULATORY STAFF

SETTLEMENT TESTIMONY OF DOUGLAS H. CARLISLE, JR.



DOCKET NO. 2007-244-W

**Application of Southland Utilities, Incorporated for
Adjustment of Rates and Charges**

TESTIMONY OF DOUGLAS H. CARLISLE, JR.**FOR****THE OFFICE OF REGULATORY STAFF****DOCKET NO. 2007-244-W****IN RE: SOUTHLAND UTILITIES, INCORPORATED APPLICATION FOR
ADJUSTMENT OF RATES AND CHARGES FOR THE PROVISION OF WATER
SERVICE**

Q. PLEASE STATE YOUR NAME, OCCUPATION, AND BUSINESS ADDRESS.

A. My name is Dr. Douglas H. Carlisle, Jr. I am the Economist at the South Carolina Office of Regulatory Staff ("ORS"). My business address is 1441 Main Street, Suite 300, Columbia, South Carolina 29201.

**Q. WOULD YOU PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND
YOUR BUSINESS EXPERIENCE?**

A. I received a Bachelor of Arts Degree from Brown University, a Masters Degree in Public Administration from the University of Virginia, and a Ph.D. in Government and International Relations also from the University of Virginia. After graduate school, I worked as an evaluator and evaluator-in-charge for 7½ years at the United States Government Accountability Office in Washington, D.C. Then I worked as a market consultant and instructor at Midlands Technical College in South Carolina. I began work for the State at the State Reorganization Commission, which analyzed audit recommendations to state agencies and actions taken to implement them on behalf of the General Assembly and gubernatorial appointees. I was next employed by the South

1 Carolina House of Representatives' Education & Public Works Committee. Before
2 joining ORS, I worked five years for the State Chief Economist as an analyst in the
3 Economist Research Section and as an adjunct to the Board of Economist Advisors. In
4 this position, I reported directly to the Chief Economist and my analyses, under his
5 direction, dealt almost exclusively with economic projections and estimates. I assumed
6 my current position at ORS in March of 2007. I have previously testified before this
7 Commission concerning rate of return.

8 **Q. WHAT IS THE MISSION OF THE OFFICE OF REGULATORY STAFF?**

9 **A.** The Office of Regulatory Staff ("ORS") is charged by law with the duty to represent the
10 public interest of South Carolina pursuant to S.C. Code Ann. § 58-4-10(B). Section 58-4-
11 10(B)(1) through (3) defines public interest as follows:

12 . . . 'public interest' means a balancing of the following:

- 13 (1) concerns of the using and consuming public with respect to public utility
14 services, regardless of the class of customer;
- 15 (2) economic development and job attraction and retention in South Carolina;
16 and
- 17 (3) preservation of the financial integrity of the State's public utilities and
18 continued investment in and maintenance of utility facilities so as to provide
19 reliable and high quality utility services.

20 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

21 **A.** The purpose of my testimony is to support the adoption of the Settlement Agreement
22 reached between Southland Utilities, Inc. ("Southland" or "the Company"), and ORS in
23 this case. Specifically, I will be testifying that the 9.3% Return on Equity (ROE) agreed

1 to by the parties is a reasonable ROE in the context of the comprehensive settlement of
2 this case.

3 **Q. DO YOU BELIEVE THAT THE SETTLEMENT AGREEMENT IS A**
4 **REASONABLE RESOLUTION OF THIS CASE?**

5 **A.** Yes.

6 **Q. ON WHAT DO YOU BASE THIS OPINION?**

7 **A.** There are two important reasons that I support this settlement. The first is general and
8 the second specific, but they are related.

9 First, a settlement agreement adds to the positive regulatory climate enjoyed by this
10 company. Analysts' reports in the financial community are replete with references to
11 regulatory climate and approbation of settlements. Predictability of decisions and cash
12 flows that follow from those decisions are valued by capital markets, so settlements such
13 as this one add to the positive economic climate in South Carolina and enhance our
14 state's economic development.

15 Second, in the context of a settlement agreement in this case, the return on equity set
16 forth in this settlement is within the range of reasonableness. Based on my knowledge of
17 expected and actual returns, I believe 9.3% ROE represents an opportunity for investors
18 to earn a reasonable return on the capital investment in a company such as Southland in
19 the context of a comprehensive settlement which disposes of all issues in the case. Just
20 as investors lay great store in regulatory climate in a state, generally, so too, they stress a
21 positive regulatory attitude toward individual companies. This settlement therefore
22 makes Southland's return more valuable because it adds predictability and an amicable
23 regulatory atmosphere to the Company's earnings.

1 To combine my two reasons for supporting this settlement, I would say that this
2 settlement sends a positive signal toward investors in both Southland and in South
3 Carolina.

4 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

5 **A. Yes, it does.**